

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the meeting held on 23 July 2019

- PRESENT:** Councillor Peter Rogers (Chair)
Mr Jonathan Mendoza (Lay Member) (Vice-Chair)
- Councillors John Griffith, G.O.Jones, R. Llewelyn Jones,
Dylan Rees, Alun Roberts, Margaret Roberts.
- Lay Member: Mr Dilwyn Evans
- IN ATTENDANCE:** Chief Executive
Assistant Chief Executive (Partnerships, Community and Service Improvement)
Head of Function (Resources) and Section 151 Officer
Head of Internal Audit & Risk (MP)
Programme, Business Planning and Performance Manager (GM) (for items 4 and 6)
Risk and Insurance Manager (JJ) (for item 8)
Committee Officer (ATH)
- APOLOGIES:** None received
- ALSO PRESENT:** Councillor Robin Williams (Portfolio Member for Finance),
Mr Alan Hughes (Performance Audit Lead - Wales Audit Office),
Accountancy Services Manager (BHO), Finance Manager (CK), Principal Auditor (NRW), Senior Auditor (SJ), Senior Auditor (JR) Llinos Joannou (Denu Talent Assistant), Chris Tidswell (CIPFA Wales)

The Chair in welcoming all those present to this the first meeting of the Audit and Governance Committee of the new municipal year thanked Councillor R. Llewelyn Jones for his support during his term as Vice-Chair of the Committee.

1 DECLARATION OF INTEREST

No declaration of interest was received.

2 MINUTES OF THE PREVIOUS MEETINGS

The minutes of the previous meetings of the Audit and Governance Committee held on the dates noted below were presented and were confirmed as correct subject to the following –

- 23 April, 2019 with an amendment to the reference under item 4 to the Internal Audit Service being 40% off target with regard to achieving its Operational Plan so that it reads 60% off target.

Arising thereon –

The Head of Audit and Risk updated the Committee with regard to the self-evaluation questionnaire by saying that the Internal Audit Service was working with Chris Tidswell of CIPFA Wales to look at the effectiveness of the Audit Committee. He would be observing today's and the 3 September meetings after which a package of work would be put together to assess how effective the Committee is and how it can fulfil its Terms of Reference.

- 14 May, 2019 (election of Chair and Vice-Chair)

3 DRAFT STATEMENT OF ACCOUNTS AND DRAFT ANNUAL GOVERNANCE STATEMENT 2018/19

The report of the Head of Function (Resources) and Section 151 Officers incorporating the draft pre-audit Statement of the Accounts for the 2018/19 financial year along with the draft Governance Statement for 2018/19 was presented for the Committee's consideration.

The Head of Function (Resources)/Section 151 Officer thanked the Accounts and Civica teams for their work in helping to ensure that the draft accounts were completed and issued in line with the statutory deadline which for the 2018/19 and 2019/20 financial years has been brought forward to the 15 June. The draft accounts were actually completed by the end of May in preparation for this becoming the statutory deadline for 2020/21 and beyond. The Statement of the Accounts has been prepared and set out in accordance with accounting regulations and practices and is produced annually to give electors, local taxpayers, Members of the Council, employees and other interested parties information about the Council's finances and how it spends public money. The Officer referred to the main financial statements and highlighted the key points arising therefrom as follows –

- Narrative report – tells the story of the Council's financial performance for the year and provides a guide to the more significant matters reported in the accounts including the key achievements, issues and risks affecting the Council. In 2018/19, the Council reported an overspend of £633k against a planned activity of £130.9m (net budget) and achieved £2.064m of savings. The table at 3.4.1 reflects the final budget for 2018/19 and actual income and expenditure against it. The Capital Budget was underspent in the year with the total spend amounting to £30.678m against a total Capital Budget for 2018/19 of £62.881m.
- Comprehensive Income and Expenditure Statement – shows the accounting cost in the year of providing services in accordance with accounting practices rather than the amount to be funded from taxation, hence the deficit figure of £20.744m which reflects the inclusion of items of non-cash expenditure required by accounting practice (pension liability, depreciation, revaluation of assets) rather than the Council's real cash outflow position.
- Summary of Movements in Council Reserves (page 24 of the accounts) – shows the net overspend of £633k for the year in line with the revenue outturn report presented to the Executive as part of the financial monitoring process and the impact on the General Fund reserve. This figure represents the difference between budgeted and actual expenditure for the year. The Summary of Movements table also shows that the Housing Revenue Account balances had a surplus of £805k for the year and that the Council's total usable reserves as at 31 March, 2019 stood at £24.844m compared to £24.069m as at 1 April, 2018.
- The Balance Sheet – shows the value of the assets and liabilities (what the Council owns and what it owes but not including highways and bridges etc.) recognised by the Council on the Balance Sheet date i.e. 31 March, 2019. What the Council is worth has reduced from £183.2m as at 31 March, 2018 to £162.456m as at 31 March, 2019 mainly as a result of the £28.5m increase in the deficit on the Local Government Defined Pension Scheme Fund.

- The Cash Flow Statements – shows the changes in the Council's cash and cash equivalents during the financial year divided into operating, investing and financing activities.
- Notes to the core Financial Statements – provide additional information and context to the figures in the main financial statements. Attention was drawn to specific notes elaborating on the Council's earmarked reserves and their purpose (N8); school balances position (N9); taxation and non-specific grant income (including £44.606m collected as Council Tax income in 2018/19) (N14); non-current assets – property, plant and equipment providing details of assets acquired and disposed of during the year, revaluation and depreciation (N15); provisions (N27); income from service recipients (N31b); Members' allowances (N33); Officers' remuneration (N34); Grants income (N37); Teachers' Pension Scheme and the Local Government Pension Scheme (N40 and 41).
- Annual Governance Statement – sets out the process, systems, principles and values by which the Council is directed and controlled including the arrangements it had in place in the year to manage and mitigate risks in carrying out its responsibilities and activities.

In considering the report, the Committee discussed the following –

- The deterioration in the overall school balances position with 12 out of the 43 primary schools and 3 of the 5 secondary schools as well as the special school in a deficit position as at 31 March, 2019 compared to 3 primaries and 1 secondary as at 31 March, 2018. In light of the above, the Committee was concerned about the Council's ability to sustain its smallest schools long-term. The Committee further referred to the recent announcement of a 2.75% pay rise for teachers and queried whether the increase would be fully funded by Welsh Government.

The Head of Function (Resources)/Section 151 Officer advised that schools' financial position is becoming more difficult to manage as budgets continue to reduce with schools finding it increasingly difficult to balance their budgets without resorting to cutting teaching staff. Smaller schools tend to be more acutely affected because they have fewer staff meaning that any reduction in staffing leads to increased class sizes. For the Council, sustaining a model of primary education provision made up of 40 primary schools is also becoming more difficult in the current financial climate not least because of the cost of maintaining 40 buildings; money saved through reducing the school buildings portfolio could otherwise be spent on education provision. With regard to teachers' pay which is now a devolved matter, Welsh Government yesterday announced a 5% increase for newly qualified teachers and a 2.75% increase for all other school teachers but did not specify how the increase would be funded. In making its own announcement about the public sector pay rise last week the Westminster Government indicated that it would have to be funded from Departments' existing budgets which suggests that no additional funding will be made available to cover the cost of the increase meaning also that no additional allocation will be provided to Welsh Government. Should that be the case, Welsh Government can either fund the cost of the pay increase by cutting elsewhere within its budget or can pass the cost onto the councils leaving them to find the extra cash through increased Council Tax and/or reducing school budgets which in turn would lead to greater financial pressure on schools.

The Assistant Chief Executive advised that the Council's Schools Modernisation Strategy formulated in 2012 and revised and updated in 2018 seeks to address amongst other things, the issues in relation to the quality and cost-effectiveness of the primary education provision on the Island whilst also having specific regard to the requirements of the Schools Organisation Code 2018 which stipulates that when considering small schools all viable alternatives to closure must be given consideration.

- Pension Scheme Fund liabilities. The Committee noted that the Council has no input in terms of how and where the Fund's monies are invested.

The Head of Function (Resources)/Section 151 Officer advised that whilst the Pension Scheme is administered by Gwynedd Council, this Council is represented on the Gwynedd Pensions Committee by the Portfolio Member for Finance. The Portfolio Member for Finance confirmed that the Pensions Committee meets around every two to three months and is due over the course of the next few months to meet with the some of the Investment Managers who manage the Fund's investments. The Portfolio Member said that part of the Fund's assets has been pooled with the assets of the other local government pension funds in Wales and that he together with Gwynedd Council's Section 151 Officer and other members of the Gwynedd Pension Committee would be meeting with Russell Investments, one of managers of the pooled funds before the end of the year. The next actuarial valuation of the Pension Fund is due to take place in March, 2020.

- Debtors. The Committee queried whether there was a link between the £266k against long term debtors in the Balance Sheet and the £5.639m bad debt provision referred to in Note 24 (Debtors). The Committee further noted that receipts taken in by the Council from the Betsi Cadwalader University Health Board (which through common control by central Government is a related party to the Council) came to £2.077m (£3.768m in 2017/18), with £2.231m due from the related party at year-end. The Committee sought an explanation of the position with regard to the money owing and whether the situation is likely to become more complex as the Council's collaboration with the Health Board increases.

The Head of Function (Resources)/Section 151 Officer clarified that Note 24 provides a breakdown of the £29.9m short-term debtors (a year or less) which is net of bad debt provisions totalling £5.539m. This is an estimate of monies owing that have been assessed as unlikely to be collected for which a provision in the accounts is made but does not mean that the debts are disregarded or that the Council ceases to pursue them. The more debt the Council succeeds in recovering then the greater the reduction in bad debt provision and the less the impact on the revenue budget. With regard to BCUHB, the Officer advised that he had held discussions with the BCUHB's new Director of Finance recently following which he had confirmed the amount owing by the Health Board which at the time came to approximately £600k. There are also historical debts that need to be addressed; the resolution of these is potentially more difficult as the Health Board requires corroborating evidence of an agreement to pay which when a length of time has passed or where an agreement was based on a verbal understanding, might not be available. Where the Council collaborates with the Health Board for the provision of services then such an arrangement would be supported from the outset by a service agreement setting out the division of costs and the responsibility for payments. A grey area is the differentiation between health and social care costs with a number of debts arising from individual cases where no agreement has been reached as to whether the costs incurred are due to health needs payable by the Health Board or due to social care needs payable by the local authority (unless the client is self-funding.)

The Officer said that in general the Council's debt collection rate is good and stands at 99.3% over a three year period with regard to Council Tax and Business Rates. (The income which the Council collects in Council Tax is £44m – Note 14). For other debt the collection rate is approximately 85%. The Council has engaged an officer to help address historical debts which although the project is nearing its end is continuing to deliver monthly on the recovery of debt. The Council is also adopting a more proactive approach with regard to other forms of debt e.g. for the recovery of social care costs.

- Provisions. The Committee queried the increase of £278k for future potential costs at the Penhesgyn landfill site. The Head of Function (Resources)/Section 151 Officer advised that there are costs associated with the maintenance of the Penhesgyn site specifically in relation to the culvert which runs beneath the site. The provision is made to cover any potential costs that may arise from the failure of the culvert.

Having considered the report, the Committee resolved to note the draft unaudited financial statements for 2018/19.

NO ADDITIONAL PROPOSAL WAS MADE

4 EXTERNAL AUDIT: ISLE OF ANGLESEY ANNUAL IMPROVEMENT REPORT 2018/19

External Audit's Annual Improvement Report for 2018/19 in respect of the Isle of Anglesey County Council was presented for the Committee's consideration. The report summarised the work carried out since the last Annual Improvement report including that of the relevant regulators.

Mr Alan Hughes, Performance Audit Lead (WAO) reported that the Council is meeting its statutory requirements in relation to continuous improvement but, as with all councils in Wales, it faces challenges going forward. It is the Auditor General's view that based on and limited to the work carried out by the Wales Audit Office and relevant regulators, the Council is likely to comply with the requirements of the Local Government Measure (2009) during 2019/20. However, it is recognised that all councils face significant financial pressures which will need continued attention in the short and medium term to enable them to reach a stable and sustainable financial position. Whilst the Auditor General did not make any formal recommendations during the course of the year, a number of proposals for improvement were made and these are reproduced in the report. Progress against these proposals and against the relevant recommendations from national reports (Appendix 3 to the report) will be monitored by External Audit as part of its improvement assessment work.

It was resolved to accept and to note the External Audit's Isle of Anglesey Annual Improvement Report.

NO ADDITIONAL PROPOSAL WAS MADE

5 INTERNAL AUDIT PROGRESS UPDATE

The report of the Head of Audit and Risk which provided an update on Internal Audit's latest progress with regard to service delivery, assurance provision and reviews completed was presented for the Committee's consideration.

The Head of Audit and Risk highlighted the main points as follows –

- That three audit reports were finalised in the period. The first relating to CONTEST – Counter Terrorism resulted in a Reasonable Assurance opinion with the review finding that the Council is making good progress in implementing an effective framework of controls to ensure that it can successfully discharge its statutory "Prevent" responsibilities in respect of HM Government's Counter Terrorism Strategy (CONTEST) 2018. The second report was in relation to Welfare Reform – Housing Rent Income which also resulted in a Reasonable Assurance opinion with the review concluding that the Council has a number of effective operational controls in place to manage the impact on the Council's ability to collect Housing Rent income. For both reviews, Internal Audit identified scope for improving controls in future in the areas audited which is reflected in action plans agreed with

Management (available to the Committee's members on request to the Head of Audit and Risk). Internal Audit raised 4 major Risk/Issues on the CONTEST – Counter Terrorism review and 1 Major and 3 Moderate Issues/Risks on the Welfare Reform – Housing Rent Income which the Officer elaborated upon. The third audit report completed was a health check of information governance and General Data Protection Regulation embedding across all the schools on the Island conducted by Strategic Risk Practice of Zurich Risk Engineering (ZRE) which as a consultancy piece of work for internal information only, did not provide an assurance rating.

- That one Follow-up review was finalised in the period relating to Payment Card Industry Data Security Standard Compliance which resulted in the original Limited Assurance rating being upgraded to a Reasonable Assurance opinion. Follow-up reviews of Primary Schools Income Collection (First Follow-up) and Sundry Debtors (Second Follow-up) are currently in progress. A further three Follow-ups are scheduled for the remainder of the year in connection with the areas listed in paragraph 21 of the report.
- That there had been a slight dip in addressing High/Red/Amber issues/risks from 89% in Quarter 4 of 2018/19 to 87% in Quarter 1 of 2019/10 although no High or Red issues/risk remain unaddressed. The decline is accounted for in paragraph 23 of the report.
- That Internal Audit was hoping to finalise and report the outcome of four audits to the Committee at this meeting (Business Continuity Arrangements, Corporate Safeguarding Follow-up, IT Resilience and Corporate Information Governance Health Check) but due to the reasons outlined in paragraph 29 of the report this has not been possible. Following the recommendation made in the Corporate Risk Management Health Check that the corporate risk register be reviewed and the corporate risks rationalised, the Senior Leadership Team reviewed the Corporate Risk Register and reduced the corporate risks by approximately half. This is reflected in the internal audit priorities going forwards. The Head of Audit and Risk referred to the Operational Plan under Appendix A highlighting the changes made and the reasons therefore whilst also drawing attention to the fact that the Plan provides the Committee with assurance about when the corporate risks on the Corporate Risk Register were last reviewed.
- The Committee at its previous meeting sought clarification of whether there is a standard national definition of assurance ratings, and if there was not, whether in the interests of benchmarking and consistency this should be introduced. Internal Audit confirmed that a standard definition for assurance ratings was not in use and further, the Service sent a query to all heads of audit across Wales as well as the Governance Advisor at CIPFA's Better Governance Forum to determine whether there was support for the introduction of the same. The exercise confirmed that councils' definitions are not dissimilar and that of the 14 responses received, only one supported the idea of standardised assurance ratings with the remainder in favour of retaining local flexibility to report conclusions in the way most suited for their organisation.
- CIPFA launched its Statement on the role of the Head of Internal Audit in April 2019 which sets out five principles aligned with the UK Public Sector Internal Audit Standards that outline the key expectations of heads of internal audit and the conditions that will allow them to thrive. The Head of Audit and Risk said that it was her opinion that the role of Head of Internal Audit at the Council satisfies the five principles and, in the context of "leading and directing an Internal Audit Service that is resourced appropriately, sufficiently and effectively", she confirmed that a neighbouring authority will be able to provide a resource for Anglesey's Internal Audit Service to backfill some of the resources that the Service is missing through maternity absence and long-term sickness absence.

The Committee discussed the following issues –

- The Committee welcomed the confirmation of a temporary additional staffing resource for the Internal Audit Service to bridge the gap created by staff absence reaffirming its view that the Internal Audit function needs to be adequately resourced to provide the information for the Committee to be able to do its job properly but querying

whether in light of the staff shortage it was feasible for the Service to be undertaking the Corporate Information Governance Health Check referred to in paragraph 29 of the report instead of using an external assurance provider. The Head of Audit and Risk said that the Internal Audit Service's familiarity with the Council's internal processes and personnel has its advantages over an external assurance provider and in the case of the Corporate Information Governance Health Check and following consultation with the Information Governance Manager, it was felt that this piece of work could be done more effectively internally.

- With regard to the audit review of Welfare Reform – Housing Rent Income, the Committee noted that system issues had hindered the Council's ability to monitor the performance of those tenants on Universal Credit, and that further, the Council had not fully profiled its tenants (the Committee was updated that the response to letters requesting this information was 40%) meaning that without accurate knowledge and information about the demographics of the Island, it could hamper the Council's ability to forward plan and gather intelligence to shape services for the future. The Committee was concerned that without this information which it felt should have been obtained as part of the preparatory work, the Council is not able to assess the impact of Universal Credit on housing rent arrears with possible implications for its income. The Committee proposed that the Head of Housing Services be asked to attend the next meeting to provide an update on the tenant profiling position.

The Head of Audit and Risk clarified that the Housing Service did not support an initial proposal for a dedicated profiling officer on the basis that the role was incorporated within the job descriptions of the Customer Care team who are now carrying out the task as part of their day to day contact with housing tenants.

It was resolved that having considered the information presented and the clarifications provided by Officers, the Audit and Governance Committee accepts and notes Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement.

ADDITIONAL ACTION PROPOSED: Head of Housing Services to be asked to attend the Committee's next meeting to provide an update on the tenant profiling position.

6 EXTERNAL AUDIT: AN EXAMINATION OF "TO PROMOTE ANGLESEY TO ENCOURAGE MAJOR DEVELOPERS TO INVEST IN THE ISLAND"

The report of External Audit on the findings of its examination of a step the Council is taking to meet its well-being objectives, namely to promote Anglesey to encourage major developers to invest in the Island and use this as a catalyst for business development and jobs on the Island was presented for the Committee's consideration.

Mr Alan Hughes, Performance Audit Lead (WAO) reported that in accordance with the Well-being of Future Generations Act the Auditor General for Wales is statutorily required to examine public bodies to assess the extent to which they have acted in accordance with the sustainable development principle when setting their well-being objectives and taking steps to meet them. In the report above, the External Auditor has sought to establish whether the Council is acting in accordance with the sustainable development principle in its step to promote Anglesey to encourage major developers to invest in the Island. In order to act in accordance with the sustainable development principle, public bodies must take account of the "five ways of working" as defined in the Welsh Government's Well-being of Future Generations (Wales) Act 2015 The Essentials document which relate to safeguarding the ability to meet long-term needs; acting to prevent problems occurring or getting worse; considering integrating the public body's well-being objectives with their

other objectives or other public body's objectives; acting in collaboration with any other person or different parts of the body itself and involving persons with an interest in achieving the well-being goals ensuring that those persons reflect the diversity of the area which the body serves.

The report found that –

- The Council has acted in accordance with the sustainable development principle in developing the step, but there are opportunities to further embed the five ways of working.
- The Council has sought to obtain a thorough understanding of the adverse effects of a large scale project and understands the importance of gathering data to inform its preventative activities.
- The Council considers how its step could contribute to the seven national well-being goals and its other well-being objectives, but it has not formally considered how the development will impact other public bodies' well-being objectives.
- The Council has taken steps to collaborate with partners and reflect the needs and wishes of local communities, but could improve how it reviews the effectiveness of collaboration.
- The Council has involved stakeholders in the Wylfa Newydd project, but needs to develop its approach to involving the full diversity of the community.

Following the conclusion of the fieldwork, External Audit's findings were presented to Council Officers at a workshop in March, 2019 where the Council began to consider its response to the findings. As a result of discussions at the workshop and further reflection on the findings, the Council has developed a series of actions under specific themes which are set out in the table in Part 2 of the report.

The Chief Executive commented that the examination sought to ask whether the Council has started to espouse the principles of the Well-being of Generations Act in its day to day work which is the main focus of the report. The report finds that the Council has begun to successfully apply those principles highlighting a number of strengths in the work which the Council has undertaken in relation to the subject matter of this study but recognising also that there needs to be a balance between Future Generations Act related work and the Council's other wider demands and priorities. In terms of Wylfa Newydd the Council has learnt a great deal both from working on the project itself and from co-operating with the Wales Audit Office on the study above. The actions which the Council has developed in response to the report as at paragraph 32 explicitly confirm the Council's commitment to promoting the Island as a destination for large scale energy related developments.

The Committee accepted the report as providing a positive assessment overall of the Council's work in applying the sustainable development principle in its approach to the promotion of Anglesey to encourage major developers to invest in the Island.

It was resolved to accept External Audit's report on its examination of "To Promote Anglesey to encourage Major Developers to Invest in the Island."

NO ADDITIONAL PROPOSAL WAS MADE

7 RISK MANAGEMENT POLICY STATEMENT

The report of the Head of Audit and Risk incorporating a Risk Management Statement setting out the responsibilities within the Council for identifying, managing and monitoring risks was presented for the Committee's consideration.

The Head of Audit and Risk reported that as part of its arrangements for good corporate governance, the Council needs to have a clear statement of its overall policy in relation to

managing risk in the achievement of its objectives and the delivery of its services. As a large and diverse organisation, appetite for risk will vary according to the activity undertaken and different appetites and tolerances to risk apply throughout the organisation. It is recognised that the Council must accept some risk so that it can achieve its objectives. Therefore, the policy is to ensure a culture of knowledgeable risk taking. An organisation's risk appetite helps it determine what a material risk is; what a high risk is and what a low risk is. By deciding risk appetite, the Council is able to more effectively prioritise risk for mitigation and better allocate resources.

The Officer said that establishing the Council's risk appetite is a piece of work which the Head of Audit and Risk in conjunction with Members and with the Senior Leadership Team would like to undertake so that a clear risk appetite statement can be formulated and approved. The Council's current risk appetite position is reflected in the Risk Management Assessment Matrix at the end of the report and this will continue to be used until such time as a policy statement is issued. Different risk tolerance levels will apply throughout the Council depending on the individual service e.g. Social Services will have a different risk tolerance level to that of Highways Services.

It was resolved to accept the Risk Management Policy Statement as presented and to recommend its approval by the Executive.

NO ADDITIONAL PROPOSAL WAS MADE

8 ANNUAL INSURANCE REPORT 2018/19

The report of the Head of Audit and Risk incorporating the Annual Insurance report for 2018/19 was presented for the Committee's consideration.

The Risk and Insurance Manager reported that the report provides a summary of claims against the Council's external and internal based insurance arrangements for the period 1 April, 2014 to 31 March 2019 based on the date the incident occurred and not on the date of the making or presentation of the claim, and for claims presented before 1 April, 2019. The report also provides a commentary on claim trends and future challenges. The summary of claims included in Appendix A to the report provides a breakdown per policy, per financial year for the Council as a whole of the number of claims that have been paid; claims that have been settled without cost or payment being made, or where the claim has not yet been settled. The summary includes the amount paid in respect of those settled claims and the amount reserved against those claims not yet settled.

In response to queries by the Committee, the Risk and Insurance Manager clarified the following –

- That the Council has personal injury insurance to cover staff and volunteers acting on behalf of the Council wherever that may be. The insurance would not apply however in the case of professional tradesperson volunteering their services e.g. an electrician volunteering to do a job of work at a school.
- That the £174,199 in reserve for public liability claims for 2018/19 although higher than the sums in reserve for the previous years is set against the correspondingly higher figure of 39 claims still open in 2018/19 which include more recent claims which will take longer to close down as they are settled with or without cost.
- That the majority (over 50%) of public liability claims are highways related e.g. slips, trips or falls on a Council controlled slipway and pothole damage to vehicles.
- That the Council endeavours to learn from claims made. In cases where claims are the result of errors by Council drivers for example, the Highways Service arranges driver

training to try to reduce the likelihood of errors occurring and therefore claims arising therefrom.

It was resolved to accept and to note the Annual Insurance Report 2018/19.

NO ADDITIONAL PROPOSAL WAS MADE

9 ANNUAL TREASURY MANAGEMENT REVIEW 2018/19

The report of the Head of Function (Resources)/Section 15 Officer incorporating the Treasury Management Review for 2018/19 was presented for the Committee's consideration.

The Head of Function (Resources)/Section 151 Officer highlighted the following -

- That in light of the ongoing uncertainty surrounding the economy over Brexit and continuing low interest rates the Treasury Management Strategy has remained to borrow only when required and to invest on the basis of safety and liquidity ensuring that the Council's invested cash is readily available.
- The Council's strategy over a number of years has been to utilise its own cash resources to fund capital expenditure where possible. However, due to low cash balances during the year, it was decided to externalise borrowing taking out two long term loans with the PWLB – £15m in January, 2019 over 50 years at an interest rate of 2.49% (£5m of which was used to repay a maturing loan) and £10m in March 2019 over 46 years at an interest rate of 2.24%.
- At the beginning of the year, the internal borrowing position was £19.9m. By taking out the loans referred to above, the internal borrowing position at 31 March, 2019 was reduced to £6.2m.
- During that year, the Council also entered into two short-term borrowings – for £5m in October, 2018 for 3 months with North Yorkshire County Council with an interest rate of 0.85% and for £5m in December, 2018 for 1 month with Tyne and Wear Pension Fund with an interest rate of 0.8%. These borrowings were taken out to cover short-term cash flow difficulties.
- During 2018/19, the Council complied with its legislative and regulatory requirements. The forecast Capital Financial Requirement (CFR – the Council's underlying need to borrow) at the time of producing the prudential indicators for 2018/19 was £148.940m. The actual CFR was significantly lower at £138.660m. Neither were the Authorised Borrowing Limit (£177m) nor the Operational Boundary (£172m) breached during the year, with the amount of external debt peaking at £134.4m only. The performance against the Prudential Indicators set by the Council show that the Council's Treasury Management activities are being undertaken in a controlled way which ensure the financial security of the Council and do not place the Council at any significant financial risk in term of unaffordable or excessive borrowing.
- Looking forward the strategy will likely remain low risk, low return investments and a planned approach to borrowing to minimise interest charges.

It was highlighted at this point that as the Committee had now been in session for three hours, under the provisions of paragraph 4.1.10 of the Council's Constitution, a resolution by the majority of those Members of the Committee present to continue with the meeting was required. It was agreed that the meeting should continue.

In response to points raised by the Committee, the Head of Function (Resources)/Section 151 Officer further clarified -

- That the underspend on the capital budget relates mostly to schemes that are funded by capital grants. The Council's approach to borrowing is on the basis of cash flow aims and need rather than on a per project basis i.e. the Council will borrow when it does not have cash available to fund capital expenditure.
- That the charge to Revenue for the cost of borrowing is made through the Minimum Revenue Provision (MRP). The MRP policy has been amended in order to link borrowing to the life of the asset borrowed for in order that the charge to revenue provides enough at the end of the borrowing term to repay the loan when it becomes due.

It was resolved –

- **To note that the outturn figures in the report will remain provisional until the audit of the 2018/19 Statement of Accounts is completed and signed off; any resulting significant adjustments to the figures included in the report will be reported as appropriate.**
- **To note the provisional 2018/19 prudential and treasury indicators in the report.**
- **To accept the Treasury Management Annual Review report for 2018/19, and to recommend it to the Executive without comment.**

10 FORWARD WORK PROGRAMME

The Committee's Forward Work programme was presented and **was accepted and noted without amendment.**

**Councillor Peter Rogers
Chair**